

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-03 INR-07 L-02 ACDA-05

NSAE-00 PA-01 PRS-01 SP-02 USIA-06 TRSE-00 SAJ-01

DODE-00 NIC-01 EB-07 COME-00 FRB-03 STR-01 EA-06

CIEP-01 SS-15 NSC-05 /080 W

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R 201805Z FEB 75

FM USMISSION NATO

TO SECSTATE WASHDC 217

INFO ALL NATO CAPITALS 5039

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY BELGRADE

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 1 OF 2 USNATO 0949

E.O. 11652: GDS

TAGS: PFOR, ECON, EFIN, NATO

SUBJECT: NAC AGENDA ITEMS III AND IV: EXPORT CREDITS EXTENDED BY  
NATO COUNTRIES TO EUROPEAN COMMUNIST COUNTRIES, FEBRUARY 19, 1975

REF: A. USNATO 828

B. STATE 35747(NOTAL)

SUMMARY: IN DISCUSSION OF ECONOMIC COMMITTEE REPORTS ON EXPORT  
CREDITS TO WARSAW PACT COUNTRIES, COUNCIL MEETING, FEBRUARY 19  
HAD WIDE-RANGING EXCHANGE OF VIEWS ON IMPACT OF CREDITS  
ON TRADE WITH EAST AND ON SOVIET DEFENSE EFFORT, ON  
PROBLEM OF HARMONIZING CREDIT TERMS, AND ON ROLE OF TRADE  
AND CREDITS IN IMPROVING EAST-WEST RELATIONS. WITHOUT DECIDING  
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ON QUESTION OF CONSULTATION AND REPORTING IN NATO, COUNCIL  
ASKED ECONOMIC COMMITTEE TO CONTINUE STUDY  
OF PROBLEM. END SUMMARY.

1. SYG LUNS OPENED DISCUSSION BY SUGGESTING THAT COUNCIL CONSIDER BOTH AGENDA ITEMS ON EXPORT CREDITS TO COMMUNIST COUNTRIES TOGETHER SINCE FIRST (C-M(74)74) IS A BACKGROUND STATISTICAL REPORT WHILE SECOND (C-M(75)2) IS A STUDY OF NATO COUNTRY EXPORT CREDIT POLICY VIS-A-VIS COMMUNIST COUNTRIES. LUNS SUMMARIZED LATTER REPORT BY STATING IT CASTS LIGHT ON EFFORTS OF US, EEC, AND JAPAN TO AGREE ON TERMS OF EXPORT CREDITS TO COMMUNIST COUNTRIES, AND THAT IT POINTS UP DIFFERENT CREDIT POSITIONS OF USSR AND OTHER WARSAW PACT COUNTRIES. LUNS NOTED THAT SOVIET UNION CONTINUES ATTEMPT TO DRIVE HARD BARGAINS FOR TRADE AND CREDITS DESPITE IMPROVED FINANCIAL POSITION, WHILE MOST OTHER WARSAW PACT NATIONS ARE HARDER HIT BY INCREASE IN COMMODITY PRICES, SHORTAGE OF HARD CURRENCIES, AND RELIANCE ON WESTERN EXPORT CREDITS. LUNS THEN CALLED ATTENTION TO FINAL PARAGRAPHS C-M(75)2 WHICH REQUEST COUNCIL TO DECIDE WHETHER AGREED PROCEDURE OF PRIOR CONSULTATIONS ON GOVERNMENT-TO-GOVERNMENT CREDITS TO USSR SHOULD BE CONTINUED AND EXPANDED TO INCLUDE OTHER WARSAW PACT COUNTRIES, OR WHETHER CONSULTATION SHOULD BE REPLACED BY PROCEDURE CONFORMING TO HISTORICAL PRACTICE, I.E. MEMBER COUNTRY EXPOST FACTO NOTIFICATION TO ECONOMIC COMMITTEE OF EXPORT CREDITS EXTENDED.

2. HARTOGH (NETHERLANDS) SAID HIS GOVERNMENT WOULD FAVOR PRIOR INFORMATION ON GOVERNMENT-TO-GOVERNMENT CREDITS TO EASTERN BLOC, BUT NOT ON GOVERNMENT GUARANTEED PRIVATE EXPORT CREDITS WHICH NORMAL EXPORT PROMOTION TOOL OF INDUSTRIALIZED COUNTRIES. HE ADDED THAT NETHERLANDS CONSIDERS USSR AND MOST EASTERN EUROPEAN COUNTRIES GOOD CREDIT RISKS. HARTOGH NOTED DIFFICULTIES INHERENT IN COMPARING TERMS OFFERED BY CREDITOR NATIONS SINCE LOW INTEREST RATES OFTEN COMPENSATED FOR BY HIGHER EXPORT PRICES. NEVERTHELESS, HE SAID NETHERLANDS WOULD WELCOME STUDY OF EFFECTIVE EXPORT CREDIT TERMS SINCE ATTEMPTS IN OECD AND OTHER FORA TO REACH AGREEMENT ON MINIMUM INTEREST RATES HAVE NOT BEEN SUCCESSFUL THUS FAR.

3. TO PROVIDE US POSITION ON CONSULTATION/REPORTING QUESTION RAISED IN C-M(75)2 AND TO AVOID ACADEMIC DISCUSSION ON EXPORT CREDIT  
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HARMONIZATION, AMBASSADOR BRUCE SAID US BELIEVES CONSULTATIONS ON TERMS AND LEVELS OF EXPORT CREDIT SHOULD BE UNDERTAKEN OUTSIDE OF NATO SO AS TO INCLUDE ALL IMPORTANT CREDITOR COUNTRIES, SUCH AS JAPAN, WHICH ARE NOT MEMBERS OF ALLIANCE. FOR THIS REASON, US DOES NOT INTEND TO ENGAGE IN PRIOR CONSULTATIONS IN NATO ON GOVERNMENT-TO-GOVERNMENT EXPORT CREDITS. BRUCE ADDED THAT ON OTHER HAND US BELIEVES A POSTERIORI REPORTING PROCEDURE PROVIDES A USEFUL SOURCE OF INFORMATION FOR ALLIED COUNTRIES AND SHOULD BE CONTINUED. AMBASSADOR PECK (UK) SUPPORTED US POSITION.

4. WITHOUT ADDRESSING CONSULTATION/REPORTING QUESTION, AMBASSADOR DE ROSE (FRANCE) SAID IT SEEMS CONTRADICTION FOR WESTERN

NATIONS WITH HIGH INFLATION RATES TO SUBSIDIZE EXPORTS TO ECONOMICALLY STRONG COMMUNIST COUNTRIES WHICH ABLE TO PURCHASE ON CASE TERMS. HOWEVER, GIVEN LIBERAL NATURE OF WESTERN ECONOMIES, COMPETITIVE CREDITS ARE QUITE NORMAL AND NECESSARY EXPORT PROMOTION MEASURE. SINCE, AT ANY RATE, VOLUME OF NATO EXPORTS TO WARSAW PACT NOMINAL IN RELATION TO TOTAL TRADE, QUESTION OF INTEREST TO ALLIANCE IS WHETHER CREDITS TO SOVIETS ALLOW THEM TO FREE SIGNIFICANT RESOURCES FOR MILITARY PURPOSES. ANSWER, DE ROSE CONCLUDED, WOULD DEPEND ON ANALYSIS OF IMPORTANCE TO SOVIETS OF FOREIGN TRADE IN RELATION TO DOMESTIC PRODUCTION. AMBASSADOR SVART (DENMARK) SUPPORTED FRENCH REMARKS AND EXPRESSED VIEW THAT WHILE DIMINUTION OF WESTERN CREDITS TO USSR MIGHT HAVE EFFECT ON SOVIET ECONOMY AS A WHOLE, IMPACT WOULD BE ON CIVILIAN RATHER THAN MILITARY SECTOR.

5. DE STAERCKE (BELGIUM) SAID MOST SIGNIFICANT STATEMENT IN ECONOMIC COMMITTEE REPORT WAS PARAGRAPH 23 WHICH STATES IT TOO EARLY TO CONCLUDE WHETHER WESTERN LENDING OR EASTERN BORROWING NATIONS HAVE GAINED MORE FROM EXPANDED TRADE WITH CREDITS. DE STAERCKE NOTED THAT EXPORT CREDIT CONSULTATIONS AMONG US, EEC, AND JAPAN HAVE THUS FAR BEEN DISAPPOINTING AND ADDED THAT US POSITION AGAINST PRIOR CONSULTATIONS ON CREDITS RAISED BASIC QUESTION REGARDING FUTURE CONSULTATIONS IN NATO ON IMPORTANT ECONOMIC QUESTIONS AFFECTING ALLIANCE, WHICH US SEEMED TO BE PROMOTING BY PROPOSING BROADER ECONOMIC DISCUSSIONS AMONG ALLIES. (COMMENT: SUBSEQUENT TO COUNCIL MEETING, USECONAD CONFERRED WITH BELGIAN DELEGATION TO CORRECT THEIR APPARENT CONFUSION BETWEEN US OPPOSITION TO PRIOR RPT PRIOR CONSULTATIONS

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IN NATO ON GOVERNMENT-TO-GOVERNMENT EXPORT CREDITS AND OUR INTEREST IN CONTINUING ALLIANCE CONSULTATION AND REPORTING ON GENERAL QUESTION OF NATO COUNTRY GUARANTEED EXPORT CREDITS TO COMMUNIST COUNTRIES.)

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-03 INR-07 L-02 ACDA-05

NSAE-00 PA-01 PRS-01 SP-02 USIA-06 TRSE-00 SAJ-01

DODE-00 NIC-01 EB-07 COME-00 FRB-03 STR-01 EA-06

CIEP-01 SS-15 NSC-05 /080 W  
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R 201805Z FEB 75

FM USMISSION NATO  
TO SECSTATE WASHDC 218  
INFO ALL NATO CAPITALS 5040  
AMEMBASSY BUCHAREST  
AMEMBASSY BUDAPEST  
AMEMBASSY BELGRADE  
AMEMBASSY MOSCOW  
AMEMBASSY PRAGUE  
AMEMBASSY SOFIA  
AMEMBASSY WARSAW  
USMISSION OECD PARIS  
USMISSION EC BRUSSELS

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6. BOSS (FRG) SAID THERE ARE TWO PROBLEMS OF MAJOR IMPORTANCE IN RELATION TO EXPORT CREDITS TO WARSAW PACT COUNTRIES, TERMS OF CREDITS AND DIFFERENT DEGREE OF DEPENDENCY ON FOREIGN CREDITS BETWEEN USSR AND OTHER WARSAW PACT COUNTRIES. BOSS NOTED THAT ECONOMIC COMMITTEE REPORT RIGHTLY POINTS OUT THAT EXPORT CREDITS, TO WARSAW PACT AS WELL AS TO OTHER DEVELOPED COUNTRIES, ARE TO SUPPORT PURELY COMMERCIAL TRANSACTIONS. TO AVOID UN-REASONABLE COMPETITION, FRG STRONGLY SUPPORTS HARMONIZATION OF TERMS OF CREDITS, ALTHOUGH NOT NECESSARILY IN NATO FORUM. SECOND PROBLEM IS POSSIBILITY OF EASTERN EUROPEAN COUNTRIES BECOMING MORE DEPENDENT ECONOMICALLY AND POLITICALLY ON USSR IN PRESENT ECONOMIC SITUATION AND WHAT CAN BE DONE TO COUNTER THIS TREND. FEG DOES NOT BELIEVE DIFFERENTIAL CREDIT TERMS ARE FEASIBLE, BUT ALLIANCE SHOULD BE EXPLORING WHAT MIGHT BE DONE.

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7. AMBASSADOR MENZIES (CANADA) CONCURRED IN FRENCH AND DANISH VIEW THAT IMPACT OF WESTERN CREDITS ON SOVIET ECONOMY PROBABLY MARGINAL AND UNLIKELY TO AFFECT DEFENSE EFFORT. MENZIES EXPRESSED INTEREST IN MORE STUDY OF EFFECT OF CREDITS ON SOVIET'S DETENTE EXPECTATIONS, AND OF EXTENT TO WHICH WESTERN COUNTRIES MAY BE USING EXPORT CREDITS AS MEASURE TO ALLEVIATE DOMESTIC ECONOMIC DIFFICULTIES.

8. LUNS SUGGESTED AND COUNCIL AGREED THAT ECONOMIC COMMITTEE SHOULD CONTINUE STUDY EXPORT CREDIT AND REPORTING QUESTION AND NAC SHOULD RETURN TO SUBJECT AT LATER DATE.

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**TAGS:** PFOR, ECON, EFIN, NATO  
**To:** STATE INFO ALL NATO CAPITALS  
BUCHAREST  
BUDAPEST  
BELGRADE  
MOSCOW  
TO EUROPEAN COMMUNIST

PRAGUE  
SOFIA  
WARSAW  
OECD PARIS  
EC BRUSSELS

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